

**Invitation to Apply (ITA) for
Participation in the Initial Financing Program
of the Michigan Broadband Development Authority**

General Purpose

The Michigan Broadband Development Authority (MBDA) seeks to identify projects for evaluation in its initial financing program. Participation in this initial financing program, or lack thereof, does not preclude participation in other MBDA programs or submittal of project proposals in the future.

Note: This is NOT a grant program. While various financial arrangements are allowed, it is strictly a loan/debt structured financing program.

There will be four distinct phases applicants can anticipate if they choose to apply and are selected to participate in each phase of the Broadband Authority's initial financing program. Phase-I is designed to screen preliminary project ideas and is the sole purpose of this ITA. As elaborated below, Phase-I (i.e., responses to this ITA) will require the development of a short narrative outlining the proposed project, including general information on the project's scope, sponsors, technologies, and economics. Applicants selected for Phase-II can expect a more thorough "pre-development" feasibility assessment requiring more detailed financial information on the business plan and credit worthiness of the applicant(s), among other things. Phase-III will involve a final due diligence and technical review, and financial structuring negotiations. Phase-IV will entail a financial commitment by the Authority, a sale of bonds if applicable, and a financial closing. Applicants will be notified at the end of each phase, as to whether or not their project will continue to be considered as part of this initial MBDA program. The requirements for submitting a proposal in response to this ITA and more details about the other phases are described below.

Background

The Michigan Broadband Authority Act, Act No. 49 of the Public Acts of 2002 (Section 484.3201 et seq. of the Michigan Compiled Laws), created the Michigan Broadband Development Authority (MBDA). The Authority's mission is to provide lower-cost financing that will assist the build-out of more affordable broadband

services throughout Michigan. The Authority's mission is also to increase the utilization of broadband by supporting new applications and systems.

In proposing his broadband legislative package, Governor Engler stated:

“Broadband service must be broadly available for Michigan families to benefit from the information economy. Let's make Michigan the most connected and high-speed state in the nation.” (November 2, 2001)

In passing the Michigan Broadband Authority Act, the legislature found that many areas of Michigan, and many key industries in the Michigan economy, are not adequately served with broadband services. It also found that it was essential that broadband infrastructure be expanded to benefit economic welfare, assure long-term growth, and enhance services of medical, education, governmental and commercial entities in the state. Further, it found that it is a valid public purpose to assist in the financing and refinancing of statewide broadband infrastructure through a public authority authorized to issue bonds and notes. MBDA was created to fulfill this public purpose and is in the process of setting up its financing programs.

The Act provides that the Authority may finance “Broadband Infrastructure,” which is defined as:

“All facilities, hardware, and software and other intellectual property necessary to provide broadband services in this state, including, but not limited to voice, video, and data.”

This definition includes two types of projects: network connectivity enhancements (“supply side”), and customer utilization enhancements (“demand side”). Supply side projects would include projects to expand broadband networks infrastructure, such as expansion of fiber networks or backbone, last-mile connectivity solutions (wireless, cable, DSL or other technologies), or other enhancements in network infrastructure components that enhance connectivity. Demand side projects would include projects that implement new or enhanced broadband software, applications, or systems to enhance broadband utilization, such as applications that support on-line education, purchasing, accounting, tracking, or other systems. Respondents to this solicitation are encouraged to review the Act to understand these and other types of financing MBDA is authorized to provide.

MBDA has completed an initial \$50 million bond sale and will utilize these bond proceeds to cover operations, make seed capital loans, and establish necessary project and bond reserves. Authority project and joint venture investments will be financed with future sales of Authority bonds on Wall Street.

Overview of Initial Program

This invitation to apply is designed to solicit an initial set of project proposals that will be evaluated by MBDA. MBDA has retained expert technical, economic, financial, and legal advisors to assist MBDA in assessing the proposals received, perform due diligence, and establish underwriting criteria.

MBDA is not seeking to provide grants as part of this program, but rather to provide debt financing through the sale of bonds. Because MBDA is capitalized with, and will provide project loans from funds raised through the sale of bonds that must be paid back, MBDA will be seeking to carefully manage the risks associated with its loans and will conduct thorough due diligence for all of its projects, including projects selected for this initial program.

MBDA can sell both taxable and tax-exempt bonds to raise debt for broadband projects. Government and 501(c)(3) non-profit organizations might be eligible for tax-exempt financing through the MBDA, while for-profit companies are eligible for financing based on taxable bonds. It may be possible for a project to receive financing based on a combination of taxable and tax-exempt bonds, depending on ownership of the project and use of the infrastructure or systems.

Table 1 indicates an estimate of the interest rates that would be associated with MBDA loans. The estimated ranges are based on estimates from Goldman Sachs of the interest rates that would be associated with MBDA bonds (as of July 12, 2002) combined with the estimated fees that will be required by MBDA to cover its costs.

Irrespective of the rates identified in Table 1, financing terms for each project will be established based upon criteria to be developed, which will include the term of the loan, risk assessment, security, credit, strategic importance of the project and other factors established by the Authority.

Table 1. Estimated rates for MBDA loans

Years	Maturity	Tax-Exempt Yield (%)	Taxable Yield (%)
1	2003	2.7--3.7	3.9--4.9
3	2005	3.5--4.5	5.3--6.3
5	2007	4.1--5.1	6.0--7.0
10	2012	5.1--6.1	6.9--7.9
15	2017	5.7--6.7	7.5--8.5
20	2022	6.1--7.1	7.7--8.7
25	2027	6.2--7.2	7.8--8.8
30	2032	6.2-7.2	7.7-8.7

The Authority recognizes that its financing should be considerably more attractive than terms available in current financial markets. To qualify for Authority financing, proposal sponsors should be prepared to demonstrate how lower cost financing accelerates the provision of broadband services to Michigan institutions, businesses, residents, and especially underserved areas and populations, as well as how it provides public “societal benefits.”

Project Proposals

For this initial program, MBDA is seeking projects that are representative of the different types of projects MBDA is authorized to finance, including both “supply” and “demand” enhancing projects. MBDA will be seeking to select up to six projects, representing a spectrum of broadband technologies, applications, and financing scenarios. Depending on the proposals received in response to this ITA, the financing requirements of selected projects could range from \$500 thousand to as much as \$100 million for network expansions. For this initial program, MBDA will be looking for projects that utilize proven technologies and systems, are economically viable, and are sponsored by companies with good credit.

Proposal Evaluation Process

MBDA will conduct a four-phase evaluation process as part of this initial project program, as follows:

Phase 1: Initial Screening

Phase 2: Pre-development Feasibility Assessment

Phase 3: Due Diligence and Financial Structuring

Phase 4: Commitment, Financing and possible Bond Sale

Phase 1: Initial Screening--Responses to this invitation to apply should supply the information needed (see below for discussion of submission requirements) for MBDA to conduct an initial screening. The minimum threshold for applicants seeking funding as part of this initial program is \$500,000. The maximum threshold is \$100,000,000. This initial screening will evaluate project proposals based on:

- How they support MBDA's mission as described in the Michigan Broadband Authority Act;
- The economic, technical and market feasibility of projects;
- The expertise, economic viability, and commitment of the project sponsors;
- The geographic location of the proposed project (particularly as the project relates to expanding/improving service in underserved regions—or improving broadband security and/or network redundancy for all regions of the state);
- The extent to which projects involve financing structures that will be instructive for future MBDA projects; and
- The public “societal benefits” of the projects.

The discussion below provides a brief overview of Phases 2-4. The information required for consideration in Phases 2-4 will be developed over the coming weeks and provided to projects selected from the Phase 1 initial screening.

Phase 2: Pre-Development Feasibility Assessment—After the initial screening of projects is complete, MBDA will indicate which projects should submit more detailed information for a project feasibility assessment. The information required for the pre-development feasibility assessment will include items such as detailed economic information about the project sponsor, a detailed business plan with budget, a management plan, and operating pro-forma statements. The MBDA is

developing formats that will detail the specific information requested. The pre-development feasibility assessment will result in selection of up to six projects for Phase 3. After the pre-development feasibility assessment, project sponsors may be eligible for seed capital funding to support development of the more detailed information required for the full due diligence review in Phase 3.

Phase 3: Due Diligence and Financial Structuring—Once projects have been selected, a process will be established for a full due diligence review. The financial structure of the project, including the debt/equity structure, financing terms, and other considerations will be addressed in this phase. MBDA will work with project sponsors to establish the technical, engineering, economic and other information that must be developed and evaluated as part of this review prior to financial closing. In phases 2-3, the scope of the business plan information required will be similar to the type of submission required by commercial lenders.

Phase 4: Commitment, Financing & Bond Sale—The final phase will be a commitment for financing from MBDA and a determination as to whether financing will be provided from existing bond sale proceeds, or a future bond issue.

Response Content

MBDA is seeking responses to this ITA that provide descriptions of specific project proposals. MBDA is seeking a level of information that will facilitate an initial screening of projects to identify ones that are suitable for this initial program. For the initial screening, MBDA must become familiar with the project sponsor and clearly understand the project being proposed, including its scope, benefits, risks and projected economics. To facilitate this initial screening, responses should include at least the following information:

- Project sponsor information
 - Name and address
 - Primary contact person
 - IRS 501(c)(3) designation, if applicable
 - Organizational chart
 - List of Board of Directors
 - Organizational mission statement and service areas

- Description of relevant experience, especially in Michigan
- Description of existing broadband or telecommunications businesses
- Credit information, including published reports
- Project team
 - Project manager
 - Lead contact
 - Project attorney and accountant (if applicable)
 - Consultants
 - Engineers
 - Management company
 - Other
- Project description
 - Overview of project
 - Discussion of project benefits
 - Project timeframe—Construction? Operations?
 - Description of technologies used
 - Description of project area (supply maps if applicable)
 - Description of customers to be served
 - Discussion of permitting, zoning, environmental, other issues
- Preliminary economics
 - Estimated costs (capital and operating)
 - Projected revenues
 - Assessment of market need
 - Proposed financing structure (including MBDA debt contribution)
 - Sources and level of competition for service being provided
 - Discussion of project risks

Response Format

No specific format is required for responses, but Phase-I proposals in response to this ITA should **NOT** exceed 10 pages in narrative text (25 pages including maps, financial schedules and/or appendices).

Response Timeline

Although the MBDA will consider all project proposals submitted, including proposals submitted after August 15, 2002, project proposals submitted by August 15, 2002 will receive first consideration. The following is a preliminary timeline for the initial project program:

August 15, 2002	RFI responses submitted to MBDA
September 1, 2002	Initial screening completed, notices sent identifying projects selected for Pre-Development Feasibility Assessment
September 2002— November 2002	Pre-Development Feasibility Assessment leading to selection of up to six projects for Due Diligence Review
October 2002— February 2003	Due Diligence Review and Financial Structuring
December 2002— June 2003	Target timeframe for financial commitments on initial projects.

Proposal Deliveries & Contact Information

Electronically formatted proposals that can be e-mailed to the MBDA are preferred. If delivering hard copies, responses should include at least 10 copies of the applicant's proposal. All responses to this ITA should be delivered to:

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Michigan Broadband Development Authority
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Ann Arbor, MI 48108

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Phone: (734) 214.1387